FILE COPY

Office-Supreme Court, U.S.
FILED
NOV 7 1958
JAMES R. BROWNING, Clerk

No. 443

IN THE

Supreme Court of the United States

October Term, 1958

G & G Fishing Magnets, Inc., et al., *Petitioners*

v.

K & G Oil Tool & Service Co., Inc., et al., *Repondents*

On Petition for Writ of Certiorari to the Supreme Court of Texas

BRIEF OF RESPONDENTS

Cooper K. Ragan
Robert Eikel
1910 Commerce Building
Houston 2, Texas
Attorneys for Respondents

Alpha Law Brief Co., 402 M & M Bldg., Houston 2

SUBJECT INDEX

	PAGE
STATEMENT	2
OBJECTIONS TO JURISDICTION	3
I. No Federal Questions Presented	3
1. Suit involved no determination or enforcement of rights under patent laws	3
2. No question involving patent laws presented	4
A. In trial court	4
B. In Supreme Court of Texas	5
3. No question involving Sherman Anti-Trust Act presented	5
A. In trial court	5
B. In Supreme Court of Texas	5
II. Judgment of Supreme Court of Texas Rests on Adequate State Grounds	7
REASONS FOR NOT GRANTING THE WRIT	9
I. No conflict in judgment of state court and decisions of this Court in trade secret cases	9
II. This trade secret case involved no contract, covenant, combination or conspiracy violative of Sherman Anti-Trust Act	10
CONCLUSION	11

LIST OF AUTHORITIES

CASES	PAGE
A. O. Smith Corporation v. Petroleum Iron Works, 73 F. 2d 531, 74 F. 2d 934	10
Adolph Gottscho, Inc. v. American Marking Corporation, 18 N.J. 467, 114 A. 2d 438	10
Becher v. Contoure, 279 U.S. 388, 390, 391	4, 9
Black v. Cutter Laboratories, 351 U.S. 292	7
Conmar Products Corporation v. Universal Slide Fastener Co., 172 F. 2d 150	10
E. I. DuPont de Nemours Powder Co. v. Masland, 244 U.S. 100	9
Edelman v. People of State of California, 344 U.S. 357, 358, 359	6
Franke v. Wiltschek, 209 F. 2d 493	10
Fullerton v. State of Texas, 196 U.S. 192	7
Herb v. Pitcairn, 324 U.S. 117, 125-126	7
Herndon v. State of Georgia, 295 U.S. 441, 443	7
Lynch v. New York ex rel. Pierson, 293 U.S. 52	6
Picard v. United Aircraft Corp., 128 F. 2d 632	10
Rooker v. Fidelity Trust Co., 261 U.S. 114, 117	7
Shellmar Products Co. v. Allen-Qualley Co., 87 F. 2d 104	10
Smith v. Dravo Corporation, 203 F. 2d 369	10
Tabor v. Hoffman, 118 N.Y. 30, 37, 23 N.E. 12, 13	10
Waters-Pierce Oil Company v. Texas, 212 U.S. 112	7
Williams v. Kaiser, 323 U.S. 471, 477	7

STATUTES	
28 U.S.C.A. 1257(3)	6

TEXTS	
170 A.L.R. 449	9
Restatement of Torts, Vol. 4, sect. 757	9

No. 443

IN THE

Supreme Court of the United States

October Term, 1958

G & G Fishing Magnets, Inc., et al., *Petitioners*

v.

K & G Oil Tool & Service Co., Inc., et al., *Respondents*

On Petition for Writ of Certiorari to the Supreme Court of Texas

BRIEF OF RESPONDENTS

To the Honorable, the Chief Justice of the United States and the Associate Justices of the Supreme Court of the United States:

Respondents, K & G Oil Tool & Service Co., Inc. and John H. Kirby II oppose the granting of the petition for writ of certiorari to review the judgment of the Supreme Court of Texas in this cause.

Statement

This is a "trade secret" case involving a magnetic fishing tool. It was brought in the state district court by these Respondents as plaintiffs against Petitioners for violation of trust and confidence and breach of contract in that Petitioners wrongfully copied and used a magnetic fishing tool substantially the same as the magnetic tool invented by Respondent Kirby and manufactured and rented by Respondent K & G Oil Tool & Service Co., Inc., his licensee. The magnetic fishing tool in question is a device that is attached to the end of the drill pipe for recovering pieces of drilling bits and other foreign metallic materials from the well bore during drilling operations on oil wells.

Respondents after a jury trial recovered damages and the trial court also issued its injunction perpetually restraining Petitioners from wrongfully copying, making and using a magnetic fishing tool substantially the same as that of Respondents'.

The Texas Court of Civil Appeals reversed and rendered the judgment of the trial court. 305 S.W. 2d 637. On writ of error to the Supreme Court of Texas that court reversed the Court of Civil Appeals and affirmed the judgment of the trial court, except that the money judgment awarded against C. P. Buckler, one of the Respondents, was eliminated. 314 S.W. 2d 782, 793.

Respondent Kirby had been working on the invention of a magnetic fishing tool for a number of years. Finally in August 1951 he filed an application for a patent which was amended by a subsequent application filed in 1952. In 1951 Respondent K & G Oil Tool & Service Co., Inc. was formed and licensed by Kirby to manufacture these

tools, and they were then rented on a job basis for use in the oil fields. Much work and ingenuity was applied to the development of this successful tool.

In March 1952 K & G Oil Tool & Service Co., Inc. entered into an agreement with Petitioners whereby Petitioners agreed to handle and sublease the K & G tools to drilling contractors or others engaged in the oil well drilling business for twenty-five per cent of the rentals charged for use of the tools and further agreed not to break down or disassemble the K & G tool. K & G also leased from Petitioners certain space in a warehouse located in Duncan, Oklahoma for the storage of its magnetic tools. According to the jury's findings and the judgment of the trial court Petitioners, in violation of their agreement, disassembled and took apart the K & G tool and thereby learned its internal proportions, qualities and construction. They were thus enabled to copy and build substantially similar tools, and they then entered into competition with Respondents in the magnetic fishing tool business.

This suit was filed in September 1953. Kirby's patent disclosing the construction of his magnetic fishing tool did not issue until February 2, 1954. Petitioners have never applied for nor do they own a patent covering the tools which they have manufactured and used.

Objections to Jurisdiction

I. *No Federal Questions are Presented*

1. Respondents' suit did not involve the validity, infringement or enforcement of any patent rights under the laws of the United States. The basis of this trade secret

case is a breach of a contract and the wrongful disregard of the confidential relations by Petitioners. The holding of this Court in an opinion by Mr. Justice Holmes in *Becher v. Contoure Laboratories*, 279 U.S. 388, 390, 391, is in point:

> "It is not denied that the jurisdiction of the Courts of the United States is exclusive in the case of suits arising under the patent laws, but it was held below that the suit in the State Court did not arise under those laws. It is plain that that suit had for its cause of action the breach of a contract or wrongful disregard of confidential relations, both matters independent of the patent law, and that the subject matter of Oppenheimer's claim was an undisclosed invention which did not need a patent to protect it from disclosure by breach of trust. *Irving Iron Works v. Kerlow Steel Flooring Co.*, 96 N. J. Eq. 202, 126 A. 291; *DuPont de Nemours Powder Co. v. Masland*, 244 U.S. 100, 37 S. Ct. 575, 61 L. Ed. 1016."

2. No question involving the patent laws as it affected Respondents' right of recovery was raised or presented by Petitioners.

A. *In the trial court:* Neither in their pleadings, exceptions to the evidence or to the jury charge nor in their motion for new trial (assignments of error) did the Petitioners present any question pertaining to the patent laws. Petitioners' pleadings show that they defended this action as a trade secret case and not one involving a controversy under the patent laws. They merely contended that the patent covering Respondent Kirby's invention having issued on February 2, 1954 Respondents were not entitled to an injunction extending beyond

the date of issuance of the patent since this constituted a publication of Respondents' trade secret. This defense did not involve any rights under the patent laws.

B. *In the Supreme Court of Texas:* Not until Petitioners filed their first motion for rehearing did they attempt to raise a federal question. In this motion they urged that it was error to grant an injunction after issuance of the patent "because, *inter alia*, the Federal Government has exclusive jurisdiction over protection of inventions within the public knowledge." (Petitioners' First Motion for Rehearing in Supreme Court of Texas, p. 54). This assignment of error was after the judgment of the Supreme Court of Texas and was insufficient to present the state court a question under the patent laws. They did urge the point in the Supreme Court of Texas as they had in the trial court that issuance of the patent was publication of the trade secret, all without reference to any Acts of Congress.

3. No question involving the Sherman Anti-trust Act as it affected Respondents' right of recovery was raised or presented by Petitioners.

A. *In the trial court:* Neither in their pleadings, exceptions to the evidence or to the jury charge nor in their motion for new trial (assignments of error) did Petitioners raise any question concerning the Sherman Anti-trust Act. Petitioners did urge that the agreement between Petitioners and Respondents was an agreement not to compete and hence not enforceable, but the Sherman Anti-trust Act was not pleaded or urged as a defense.

B. *In the Supreme Court of Texas;* Not until Petitioners filed their first motion for rehearing did they attempt to raise a federal question. In this motion they

urged "that the monopoly Petitioners seek is in violation of the anti-trust laws of Texas and of the United States." (Petitioners' First Motion for Rehearing in Supreme Court of Texas, p. 48). This assignment of error was after the judgment of the Supreme Court of Texas and was insufficient to present to the state court a federal question under the Sherman Anti-trust Act. It would seem that this proposition is predicated on the false premise that the decree of injunction entered by the trial court which enjoins Petitioners from violating Respondents' trade secrets contravenes the Sherman Anti-trust Act.

Under Section 1257(3) of the *Judicial Code* (Title 28, Sect. 1257(3) U.S.C.A.) this Court has the discretion to review a judgment of the highest court of a state by writ of certiorari "where any title, right, privilege or immunity *is specially set up* or *claimed* under the Constitution, treaties or statutes of . . . the United States."

The record in this case not disclosing that the Petitioners timely raised the federal questions in the trial court in accordance with state law, this Court is without power to decide whether any federal questions were improperly decided by the state court. *Edelman v. People of State of California*, 344 U.S. 357, 358, 359 and cases there cited.

Claim of jurisdiction cannot be sustained by reference to briefs and statements which are not part of the record. *Lynch v. New York ex rel. Pierson*, 293 U.S. 52.

The attempt to raise a federal question for the first time after judgment on a motion for rehearing comes too late

unless the state court actually entertains the question and decides it. *Fullerton v. State of Texas*, 196 U.S. 192; *Waters-Pierce Oil Company v. Texas*, 212 U.S. 112; *Rooker v. Fidelity Trust Co.*, 261 U.S. 114, 117; *Herndon v. State of Georgia*, 295 U.S. 441, 443.

The record, including the opinion of the Supreme Court of Texas supplemented by that court's certificate, reflects that there was no federal question timely and properly raised before judgment involving either the patent laws or the Sherman Anti-trust Act. The state court did not entertain or decide the federal questions attempted to be raised by Petitioners in their first motion for rehearing. See opinion on the motion for rehearing, 314 S.W. 2d at 791.

II. *Judgment of the Supreme Court of Texas Rests on Adequate State Grounds*

Even assuming Petitioners properly raised the federal questions urged in their petition for writ of certiorari, nevertheless the judgment of the Supreme Court of Texas is based on adequate and independent state grounds. *Black v. Cutter Laboratories*, 351 U.S. 292; *Herb v. Pitcairn*, 324 U.S. 117, 125-126; *Williams v. Kaiser*, 323 U.S. 471, 477.

The only questions presented to and decided by the Supreme Court of Texas were questions involving the application of long established equitable principles, state law to the facts of this case. The judgment and opinion is grounded entirely on state law. No federal questions were decided, discussed or even mentioned in the court's opinion. The questions determined, all based on equitable principles and local law, were these:

(1) Respondents were entitled to full relief, both legal and equitable, for the protection of their trade secret. The basis of a trade secret case is a "breach of a contract or wrongful disregard of confidential relations."

(2) Respondents' magnetic fishing tool was entitled to be protected as a trade secret even if it was not subject to patent under Acts of Congress and novelty and invention are not requisite for a trade secret as they are for patentability.

(3) The injunction was for the protection of a trade secret which is a well recognized objective of equity and not to enforce a covenant to manufacture or sell a device to only one person and the injunction is not contrary to public policy which discourages contracts which tend to lessen competition.

(4) It is not a valid objection to the injunction decree that it extends beyond the date of the issuance of the patent since injunctive relief is not based upon the patent but upon the Petitioners having gained knowledge of such device at a time prior to its being patented through an abuse of the confidential relation and breach of a contract.

(5) Respondents' suit was not barred by laches and stale demand.

(6) The form of the injunction decree was sufficiently definite to be enforced.

(7) On motion for rehearing, the court modified the judgment of the trial court by eliminating therefrom the money judgment awarded against Petitioner C. P. Buckler in favor of Respondents.

There were no federal questions embraced within the scope of or subsidiary to the court's decision on the above questions.

Reasons For Not Granting The Writ

In this trade secret case there are no special or important reasons for granting the writ of certiorari. Supreme Court Rule 19. No constitutional questions are involved. No important policy issues are presented concerning the balance between the state and federal judicial systems, the relations of the branches of the federal government or the fundamental rights of the individual in relation to government. While this case is important to the parties, it does not involve any principles the settlement of which are of special significance to the public.

I. There is no conflict in the judgment and decision of the state court in the application of trade secret law under the facts in this case and the cases heretofore decided by this Court. *E. I. DuPont de Nemours Powder Co. v. Masland*, 244 U.S. 100; *Becher v. Contoure Laboratories*, 279 U.S. 388. Mr. Justice Holmes in the last cited case distinguishes between patent and trade secret suits. The holding in that case is particularly apt as applied to the facts of the instant case. The Texas Supreme Court in its decision has followed the principles of law enunciated in those cases. There have been numerous decisions of inferior federal courts which have likewise followed the holding of this Court in these cited cases. See Comment Note, 170 A.L.R. 449, et seq. for cases from all jurisdictions, and American Law Institute, *Restatement of Torts*, Vol. 4, sect. 757 which paraphrases the language in these opinions.

While the state court has not decided a federal question of substance, it is respectfully submitted if it has then its decision is in accord with applicable decisions of this Court and a majority of other American courts that have handed down decisions and written on the subject.

On the question of issuance of an injunction which enjoins the use of a device that has been patented subsequent to the institution of the trade secret suit, the Supreme Court of Texas chose to follow *Smith v. Dravo Corporation*, 203 F. 2d 369, by the Seventh Circuit, which applied, in a diversity of citizenship case, the law of Illinois and the law of Pennsylvania under the Illinois doctrine of conflicts of law; *Shellmar Products Co. v. Allen-Qualley Co.*, 87 F. 2d 104, by the Seventh Circuit; *A. O. Smith Corporation v. Petroleum Iron Works*, 73 F. 2d 531, 74 F. 2d 934, by the Sixth Circuit; *Franke v. Wiltschek*, 209 F. 2d 493, by the Second Circuit, which applied, in a diversity of citizenship case, the law of New York; *Tabor v. Hoffman*, 118 N.Y. 30, 37, 23 N.E. 12, 13, by the New York Court of Appeals; and *Adolph Gottscho, Inc. v. American Marking Corporation*, 18 N.J. 467, 114 A. 2d 438, by the Supreme Court of New Jersey. The state court refused to follow the Court of Appeals for the Second Circuit in *Conmar Products Corporation v. Universal Slide Fastener Co.*, 172 F. 2d 150 and in *Picard v. United Aircraft Corp.*, 128 F. 2d 632.

II. The Sherman Anti-trust Act seeks to prevent practices which create monopolies or restrain trade or restrict competition. Any acts having this effect Congress determined to be against the public interest.

This trade secret case involved no contract, covenant, combination or conspiracy which could possibly be in re-

straint of trade or that restricted competition. The only contract or agreement in this record was the one whereby Petitioners agreed to handle, store and sublease the K & G tools to drilling contractors or others engaged in the oil well drilling business with the further agreement not to break down or disassemble the K & G tool. It was not an exclusive arrangement the effect of which was to lessen competition. It did create a fiduciary relation between the parties, the violation of which by Petitioners brought on this lawsuit.

The protection of Respondents' rights by the decree of injunction did not restrain trade. It only preserved Respondents' rights to their invention or trade secret which had been wrongfully appropriated by Petitioners. It prevented Petitioners from unjustly enriching themselves at the expense of Respondents.

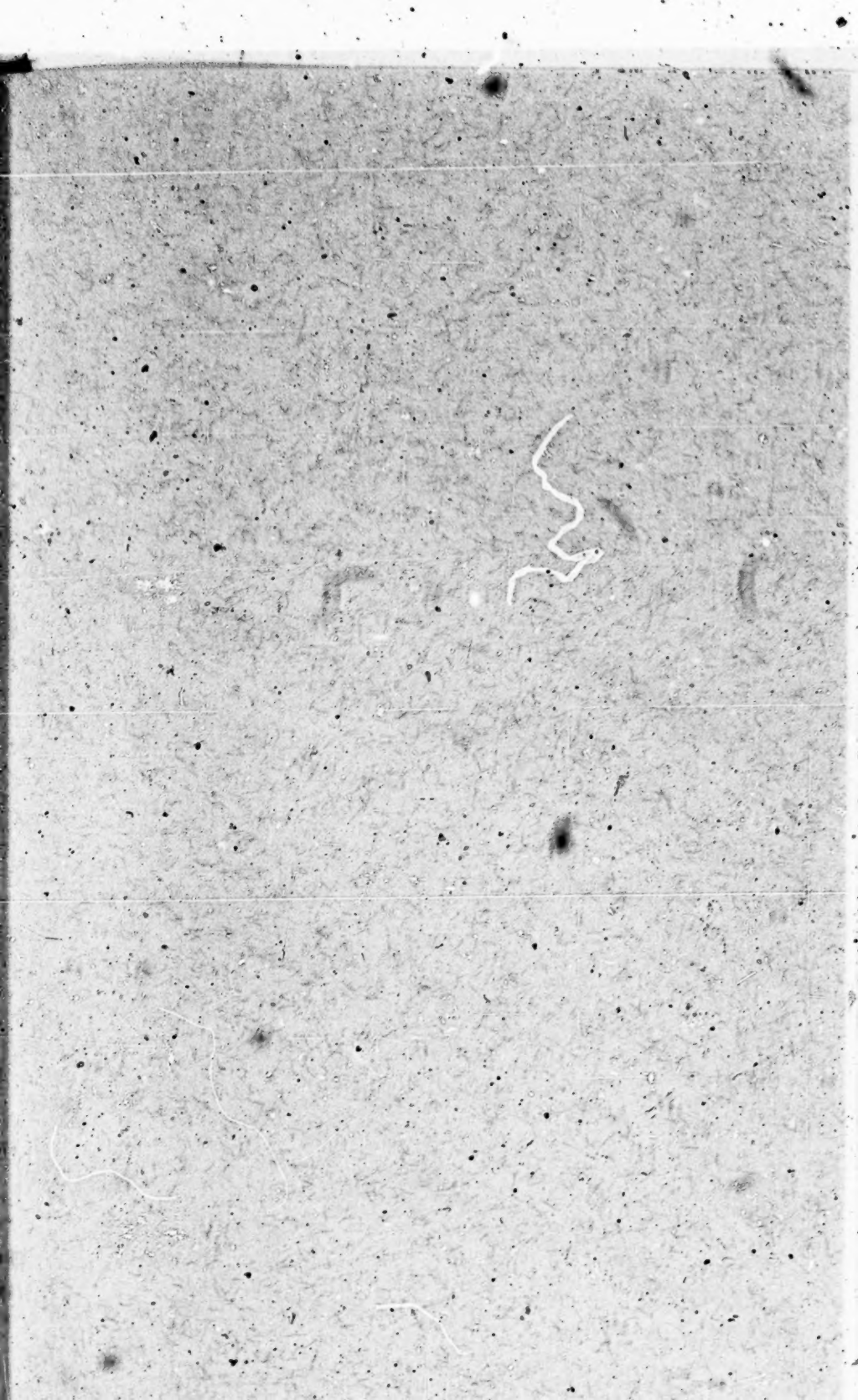
Conclusion

We believe no federal questions have been timely raised or decided in the Supreme Court of Texas; that the judgment of the state court below is based on adequate state gorunds independent of any federal question; and that the judgment and decision of the Supreme Court of Texas is correct. We, therefore, respectfully pray that the petition for writ of certiorari to the Supreme Court of Texas be denied

Respectfully submitted,

COOPER K. RAGAN
ROBERT EIKEL
1910 Commerce Building
Houston 2, Texas
Attorneys for Respondents

Certificate of Service

I hereby certify that a true copy of this Brief of Respondents was delivered to Tom Arnold, counsel of record for Petitioners, by depositing the same in a United States post office with first-class postage prepaid addressed to him at 248 Esperson Building, Houston 2, Texas, his post office address, on this the_____day of November, 1958.

_____